

CONFORMED COPY

LOAN NUMBER 7418-IND

Loan Agreement

(Third Development Policy Loan)

between

REPUBLIC OF INDONESIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 20, 2006

LOAN NUMBER 7418-IND

LOAN AGREEMENT

Agreement dated December 20, 2006 entered into between REPUBLIC OF INDONESIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower’s maintenance of an appropriate macro-economic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The IBRD General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Loan Agreement have the meanings ascribed to them in the General Conditions or in this Agreement.

ARTICLE II – LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of five hundred and thirty million Dollars (\$530,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (“Loan”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent ($\frac{3}{4}$ of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.

- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions.
- 2.06. The Payment Dates are April 15 and October 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 2 to this Agreement.
- 2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; and (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.09. Without limitation upon the provisions of Section 5.10 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III – PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
- (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and

- (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV – REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V – EFFECTIVENESS

- 5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of this Agreement, have been fulfilled.
- 5.02. The Effectiveness Deadline is the date sixty (60) days after the date of this Agreement.

ARTICLE VI – REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is the Minister of Finance.
- 6.02. The Borrower's Address is:

Ministry of Finance
c/o Directorate General of Debt Management
Jalan Lapangan Banteng Timur 2-4
P.O. Box 1139
Jakarta 10710
Indonesia

Cable address:	Telex:	Facsimile:
FINMINISTRY Jakarta	45799 DJMLN-IA 44319 DEPKEU-IA	(21) 381 2859

6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Jakarta, Indonesia, as of the day and year first above written.

REPUBLIC OF INDONESIA

By: /s/ Mr. Rahmat Waluyanto

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Mr. Andrew Steer

Authorized Representative

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions Taken Under the Program.

The actions taken by the Borrower under the Program include the following:

1. In order to separate the formulation and implementation of fiscal policy within MoF, the Borrower has created a fiscal policy office (“BKF”) with capability and access to information sufficient to provide analysis of proposed tax, tariff and financial market policies, and provided BKF with the tools and resources that it requires to be fully operational.
2. The Borrower has issued ministerial decrees giving details of procedures governing the DRPPHLN–JM (Blue Book), as well as decrees on on-lending and on-granting arrangements, setting forth the detailed procedures for the channeling of loans and grants, respectively, from central to local governments.
3. The Borrower has submitted to its national assembly for approval a Warehouse Receipts Bill establishing a system of designated warehouses providing official, centrally registered receipts for commodities stored by small- and medium-sized farmers and traders, allowing such farmers and traders to store their goods for as long as needed without having to dispose of them, and to use such receipts as collateral to secure loans.
4. The Borrower has continued to make progress in the implementation of the financial sector safety net, through implementation of the planned reduction of the coverage of the deposit guarantee on bank liabilities to Rp. 1 billion.
5. The Borrower has completed the reorganization of BAPEPAM and DGFI, merging them into a single entity (“BAPEPAM-LK”), and providing BAPEPAM-LK with the tools and resources that it requires to be fully operational.
6. The Borrower has submitted proposals to its national assembly for revisions to its tax laws to allow taxpayers to defer payment of tax assessments under dispute, pending the outcome of an appeal to the tax tribunal.
7. The Borrower has established the legal and institutional framework governing its involvement in Public-Private Partnership (“PPP”) transactions and the management of the consequential fiscal risks, and set aside the tools and other resources required for the effective implementation of both the risk management functions and PPP framework.

8. The Borrower has continued to make progress in the implementation of the Treasury Single Account through extension of the pilot for zero-balance non-salary accounts to at least 50 KPPNs.
9. The Borrower has provided evidence of improved fiscal reporting of budget expenditures through the timely presentation of aggregate central government financial statements for FY 2005.
10. The Borrower has taken steps to modernize the headquarters of DGT though the establishment of a separate unit to handle the modernization program on a full-time basis.
11. The Borrower has launched a pilot exercise on civil service reform through the design of a new job classification and remuneration policy for the *Pejabat Negara*.
12. The Borrower has taken steps to monitor the effectiveness of compensation programs financed out of the proceeds of reallocated fuel subsidy funds, through an independent assessment, including a review of the fiduciary aspects, of the cash transfer, and health, education, and village infrastructure programs funded thereunder.

Section II. Availability of Loan Proceeds

- A. General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. Allocation of Loan and Credit Amounts.** The Loan and Credit shall (except for amounts required to pay the Front-end Fee) be withdrawn in a single tranche. The allocation of the amounts of the Loan and Credit to this end is set out in the table below:

Allocations	Amount of the Loan Allocated (expressed in Dollars)	Amount of the Credit Allocated (expressed in SDR)
Single Tranche	530,000,000	47,370,000
Front-end Fee	0	n/a
TOTAL AMOUNT	530,000,000	47,370,000

- C. Deposits of Loan Amounts.** Except as the Bank may otherwise agree:
1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and
 2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.
- D. Excluded Expenditures.** The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.
- E. Closing Date.** The Closing Date is March 31, 2007.

SCHEDULE 2

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Repayment Date	Installment Share (Expressed as a Percentage)
April 15, 2012	1.93
October 15, 2012	2.00
April 15, 2013	2.07
October 15, 2013	2.14
April 15, 2014	2.21
October 15, 2014	2.29
April 15, 2015	2.37
October 15, 2015	2.46
April 15, 2016	2.54
October 15, 2016	2.63
April 15, 2017	2.72
October 15, 2017	2.82
April 15, 2018	2.92
October 15, 2018	3.02
April 15, 2019	3.12
October 15, 2019	3.23
April 15, 2020	3.35
October 15, 2020	3.46
April 15, 2021	3.58
October 15, 2021	3.71
April 15, 2022	3.84
October 15, 2022	3.97
April 15, 2023	4.11

October 15, 2023	4.26
April 15, 2024	4.41
October 15, 2024	4.56
April 15, 2025	4.72
October 15, 2025	4.89
April 15, 2026	5.06
October 15, 2026	5.61

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two (2) calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX

Section I. Definitions

1. “BAPEPAM” means *Badan Pengawas Pasar Modal*, the Borrower’s capital market supervisory agency.
2. “BAPEPAM-LK” means *Bapepam dan Lembaga Keuangan*, the Borrower’s newly-created securities and non-bank financial institutions regulator.
3. “BAPPENAS” means *Badan Perencanaan dan Pembangunan Nasional*, the Borrower’s agency responsible for national development planning.
4. “BKF” means *Badan Kebijakan Fiskal*, a newly-created Fiscal Policy Office of MoF.
5. “DRPPHLN–JM” means *Daftar Rencana Prioritas Pinjaman dan Hibah Luar Negri – Jangka Menengah*, a list of priority development projects also known as Blue Book, published from time to time by BAPPENAS, and to be financed using external sources of funding.
6. “Credit” means the credit which is provided for in the Financing Agreement.
7. “DGFI” means the Directorate-General of Financial Institutions of MoF.
8. “DGT” means the Directorate-General of Tax of MoF.
9. “DG-Treasury” means the Directorate-General of Treasury of MoF.
10. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) under a contract with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds during the procurement or execution of such contract, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to remedy the situation.
11. "Financing Agreement" means the agreement between the Borrower and the Association in support of the Program, of the same date as the Loan Agreement, as such agreement may be amended from time to time. "Financing Agreement" includes all appendices, schedules and agreements supplemental to the Financing Agreement.

12. “Fiscal Year” or FY” means the Borrower’s fiscal year commencing January 1 and ending December 31.
13. “IBRD General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 with the modifications set forth in Section II of this Appendix.
14. “KPPN” means *Kantor Pelayanan Perbendaharaan Negara*, a local payment office operating under DG-Treasury, and responsible for the disbursement of central budget funds.
15. “MoF” means the Borrower’s Ministry of Finance.
16. “*Pejabat Negara*” means elected officials and other high ranking public appointees.
17. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated November 16, 2006, from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
18. “Rupiah” or “Rp” means the Borrower’s currency.
19. “Single Tranche” means the amount of the Loan allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to *Applications for Withdrawal*) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.

4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. Plans; Documents; Records

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two (2) years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.07. Program Monitoring and Evaluation

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six (6) months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.”

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

